PRESS CONFERENCE

Mario Draghi, President of the ECB,Vítor Constâncio, Vice-President of the ECB,Frankfurt am Main, 26 April 2018

Jump to the transcript of the questions and answers

Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. We will now report on the outcome of today's meeting of the Governing Council.

Based on our regular economic and monetary analyses, we decided to keep the **key ECB interest rates** unchanged. We continue to expect them to remain at their present levels for an extended period of time, and well past the horizon of our net asset purchases.

Regarding **non-standard monetary policy measures**, we confirm that our net asset purchases, at the current monthly pace of €30 billion, are intended to run until the end of September 2018, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. The Eurosystem will continue to reinvest the principal payments from maturing securities purchased under the asset purchase programme for an extended period of time after the end of its net asset purchases, and in any case for as long as necessary. This will contribute both to favourable liquidity conditions and to an appropriate monetary policy stance.

Following several quarters of higher than expected growth, incoming information since our meeting in early March points towards some moderation, while remaining consistent with a solid and broad-based expansion of the euro area economy. The underlying strength of the euro area economy continues to support our confidence that inflation will converge towards our inflation aim of below, but close to, 2% over the medium term. At the same time, measures of underlying inflation remain subdued and have yet to show convincing signs of a sustained upward trend. In this context, the Governing Council will continue to monitor developments in the exchange rate and other financial conditions with regard to their possible implications for the inflation outlook. Overall, an ample degree of monetary stimulus remains necessary for underlying inflation pressures to continue to build up and support headline inflation developments over the medium term. This continued monetary support is provided by the net asset purchases, by the sizeable stock of acquired assets and the ongoing and forthcoming reinvestments, and by our forward guidance on interest rates.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Real GDP increased by 0.7%, quarter on quarter, in the fourth quarter of 2017, following similar growth in the previous quarter. This resulted in an average annual growth rate of 2.4% in 2017 – the highest since 2007. The latest economic indicators suggest some moderation in the pace of growth since the start of the year. This moderation may in part reflect a pull-back from the high pace of growth observed at the end of last year, while temporary factors may also be at work. Overall, however, growth is expected to remain solid and broad-based. Our monetary policy measures, which have facilitated the deleveraging process, should continue to underpin domestic demand. Private consumption is supported by ongoing employment gains, which, in turn, partly reflect past labour market reforms, and by growing household wealth. Business investment continues to strengthen on the back of very favourable financing conditions, rising corporate profitability and solid demand. Housing investment continues to improve. In addition, the broad-based global expansion is providing impetus to euro area exports.

The risks surrounding the euro area growth outlook remain broadly balanced. However, risks related to global factors, including the threat of increased protectionism, have become more prominent.

Euro area annual HICP inflation increased to 1.3% in March 2018, from 1.1% in February. This reflected mainly higher food price inflation. On the basis of current futures prices for oil, annual rates of headline inflation are likely to hover around 1.5% for the remainder of the year. Measures of underlying inflation remain subdued overall. Looking ahead, they are expected to rise gradually over the medium term, supported by our monetary policy measures, the continuing economic expansion, the corresponding absorption of economic slack and rising wage growth.

Turning to the **monetary analysis**, broad money (M3) continues to expand at a robust pace, with an annual growth rate of 4.2% in February 2018, slightly below the narrow range observed since mid-2015. M3 growth continues to reflect the impact of the ECB's monetary policy measures and the low opportunity cost of holding the most liquid deposits. Accordingly, the narrow monetary aggregate M1 remained the main contributor to broad money growth, continuing to expand at a solid annual rate.

The recovery in the growth of loans to the private sector observed since the beginning of 2014 is proceeding. The annual growth rate of loans to non-financial corporations stood at 3.1% in February 2018, after 3.4% in January and 3.1% in December 2017, while the annual growth rate of loans to households remained unchanged at 2.9%. The euro area bank lending survey for the first quarter of 2018 indicates that loan growth continues to be supported by increasing demand across all loan categories and a further easing in overall bank lending conditions for loans to enterprises and loans for house purchase.

The pass-through of the monetary policy measures put in place since June 2014 continues to significantly support borrowing conditions for firms and households, access to financing – notably for small and medium-sized enterprises – and credit flows across the euro area.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed the need for an ample degree of monetary accommodation to secure a sustained return of inflation rates towards levels that are below, but close to, 2% over the medium term.

In order to reap the full benefits from our monetary policy measures, other policy areas must contribute decisively to raising the longer-term growth potential and reducing vulnerabilities. The implementation of **structural reforms** in euro area countries needs to be substantially stepped up to increase resilience, reduce structural unemployment and boost euro area productivity and growth potential. Against the background of overall limited implementation of the 2017 country-specific recommendations, greater reform effort is necessary in euro area countries. Regarding **fiscal policies**, the ongoing broad-based expansion calls for rebuilding fiscal buffers. This is particularly important in countries where government debt remains high. All countries would benefit from intensifying efforts towards achieving a more growth-friendly composition of public finances. A full, transparent and consistent implementation of the Stability and Growth Pact and of the macroeconomic imbalance procedure over time and across countries remains essential to increase the resilience of the euro area economy. Improving the functioning of Economic and Monetary Union remains a priority. The Governing Council urges specific and decisive steps to complete the banking union and the capital markets union.

We are now at your disposal for questions.

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At your last press conference you said that strong incoming data on growth was helping to reduce the variance and the path of inflation. I'm wondering, now that we've seen some weaker-than-expected data, is there a risk that the variance in inflation could increase and potentially slow down the process of convergence?

My second question is: over the last four weeks there has been quite a noticeable drop in the net corporate bond purchases. I'm wondering whether you could explain the reasons for that.

Draghi: Let me answer first the second question. I think it's always wrong to fix attention to one specific week or one specific month. You know this - there is a certain amount of flexibility around purchases. So, what's happened here is that we had a higher seasonal amount of purchases at some point and therefore we kind of averaged down with lower purchases. This coincided also with a downsize of the programme that took place after December. There is no specific strategy behind the lower amount of purchases of the private corporate bonds.

Now, the first question perhaps suggests that I report on the exchanges we had today because this would explain the answer to your question. First of all, the interesting thing is that we didn't discuss monetary policy per se. All Governing Council members reported on the situation of their own countries. It's quite clear that since our last meeting, broadly all countries experienced, to different extents of course, some moderation in growth or some loss of momentum. When we look at the indicators that showed significant, sharp declines, we see that, first of all, the fact that all countries reported means that this loss of momentum is pretty broad across countries. It's also broad across sectors because when we look at the indicators, it's both hard and soft survey-based indicators. Sharp declines were experienced by PMI, almost all sectors, in retail, sales, manufacturing, services, in construction. Then we had declines in industrial production, in capital goods production. The PMI in exports orders also declined. Also we had declines in national business and confidence indicators.

And these declines were sharp and in some cases, the extent of these declines was unexpected. The issue is how the Governing Council has read these new developments and I think this was your question, really. First of all, we have to look at - the present figures now – first of all, the decline stabilised and the levels at which they are today are still above historical averages. Second, these declines happened, as I've just said in the Introductory Statement, after a period of very strong growth for the euro area. We had four quarters, if I'm not mistaken, at 0.7%[1]. Some sort of normalisation was expected.

Then we discussed the possible causes of this or how to read through – to read this normalisation. Clearly there is some unexpected component, as I was saying, which is mostly due to temporary factors like the – especially in one country it's cold weather, it's the strikes, it's the timing of Easter. There are several temporary factors which may have produced this unexpected size. Then the discussion was how much of this is supply, is the effect of supply constraints that are limited to labour shortages in some sectors like construction? But there are also other phenomena like for example the drop in backlogs, in manufacturing and capital goods sectors that would – could suggest a softening in demand and therefore warrant monitoring by the Governing Council.

So if I had to just give you an idea what the bottom line of this discussion is in my view, it's basically caution in reading these developments, caution tempered by an unchanged confidence in the convergence of inflation to our inflation aim. The overall growth remains, as I've just said, solid and broad based. The risks are broadly balanced but, as I said, with more prominence to global risks and I mentioned protectionism. Now, having said that, measures of underlying inflation since our last meeting moved sideways. There hasn't been any convincing upward trend or signs that this upward trend is about to come. There are certain encouraging signs on nominal wage growth where we start seeing some movements which may support price pressures in the coming months. This is about it - I think I've answered your question.

The euro is considerably stronger than it was a year ago. In previous speeches you've mentioned that the volatility of the exchange rate is something that you're watching quite closely. It now seems to have stabilised around 1.22. Is this still something that concerns you?

My second question is, I know you said that you didn't discuss the policy outlook. But a lot of analysts are looking at the incoming data – and pushing back their forecast for when the ECB might start to raise interest rates. Do you think that is sensible? What conditions would you be looking for, do you think, before you started raising interest rates?

Draghi: I'll answer your second question first. I said caution tempered by an unchanged confidence that inflation will converge towards our aim over the medium term. But such convergence remains conditional on an ample degree of monetary accommodation. In the end, steady hand were words used in the discussion in the Governing Council. Our policy has, as you've just reminded us, served us well and will continue to do so. Therefore the other words we used were patience, prudence first of all in assessing, patience and persistence. Finally, it goes without saying that the Governing Council shares its steadfast commitment to price stability, defined as a rate of inflation which is close but below 2% in the medium term.

Now, on your first question you're right; the exchange rate stabilised and recent volatility is less. So it was not discussed.

My first question is, you mentioned protectionism as a risk factor. It seems quite possible that the US extends its tariffs on aluminium and so on, also on the EU. How could an escalation of the trade dispute affect the ECB's monetary policy?

My second question is on the G30. The ECB has recently decided that you as the ECB President can remain a member of the G30 group. One question behind that is not only if this membership poses an actual conflict of interest, but also a perceived conflict of interest. Why do you think the ECB itself is better suited to assess if there is a perceived conflict of interest than an independent watchdog like the Ombudsman?

The answer to your second question is in the very carefully prepared opinion of the ECB that was submitted about two weeks ago.